FOOD SYSTEMS RESTRUCTURING PROJECT (FSRP) KAZAKSTAN

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FINAL PROGRAM REPORT
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Project Overview

After achieving independence from the Soviet Union in the early 1990s, the Central Asian countries found themselves in various stages of economic transition. The incredible and unprecedented changes in economic and political structures were beyond the management capabilities of the new and often inexperienced governments. The level of unemployment reached 35 percent, economic output declined by over 40 percent, and management lacked necessary skills or was virtually nonexistent. The problem was particularly serious in the agriculture and food processing industries, which were confronted with tight credit conditions, stringent financial constraints, and an acute lack of technical, managerial and marketing skills to operate enterprises effectively. Modernization of the agriculture sector is crucial to the development of Kazakstan, with 35 percent of the gross national product derived from agriculture and 40 percent of the population employed in the agriculture sector.

To address these issues, USAID elected to implement a program concept that had been immensely successful in Eastern Europe: the improvement and enhancement of food processing and agribusiness technology and agribusiness management through joint ventures between US and Central Asian enterprises. The basis of the Food Systems Restructuring Program (FSRP) was to use and facilitate private US agribusiness interests in stimulating capital flow, the transfer of US technology and managerial skills, and the demonstration of viable alternatives to the former, state-controlled systems.

ACDI/VOCA began implementing FSRP in May 1993 with $3,460,000 in obligated funds from USAID. The project was initially funded through May 1997, but was extended through December 31, 1998. **Over the life of the project, $22,950,000 in investments were leveraged through this program, representing a 1:7 ratio in project to investment funds. Moreover, for every $1 spent on attracting investment through sub-grants to US companies generated $50 in US private investment in Central Asia.** Significantly, these figures do not include the approximately $30 million in potential investment from the joint venture projects that were still in process at the end of the FSRP project.

FSRP's overall objective was to enhance and promote the establishment and implementation of joint ventures between US and Central Asian enterprises in the food processing field. This goal was to be achieved through:

a) assistance to the US business community in identifying and developing suitable joint venture opportunities;
b) support the development of the required business plans necessary to obtain project specific funding; and
c) providing matching funds for technology transfer as investment incentives once a deal is completed.

Over the life of the project, ACDI/VOCA assisted Central Asian enterprises by facilitating business relationships with US firms interested in pursuing joint venture opportunities. The goal of the project was to improve Central Asia's food processing industry through technology transfer, technical assistance, trade and investment.

ACDI/VOCA accomplished this by providing two types of subgrants to US companies pursuing joint venture investments in Central Asia. The first type is the Business Development subgrant. These subgrants assist both the US and Central Asian partners with the up-front activities that are crucial to a successful joint venture. Activities include feasibility studies, business plans, and marketing assistance as well as assistance identifying appropriate sources of financing. The second type of subgrant is the Joint Venture Training subgrant. These subgrants are used for management, marketing and operational training as well as technology transfers. Joint Venture Training subgrants are based on the equity contribution of the participating US companies. The formula generally followed is that for every $2.5 dollars US companies provide in equity to the venture, they are eligible to apply for $1 in Joint Venture Training subgrant funds.

FSRP was conceived and intended to cover opportunities throughout all Central Asian countries. However, opportunities suitable for development were found predominantly only in Kazakstan. In addition, the project did not have sufficient resources to adequately analyze the markets, identify new opportunities and perform company due diligence in all Central Asian countries. However, if potential opportunities outside Kazakstan were brought to ACDI/VOCA either by US or Central Asian firms, they were reviewed and analyzed as possible Joint Venture activities under the project.

Similarly, while the functional concept targeted food processing, the promotion of joint ventures during project implementation was expanded to encompass virtually all other agribusiness disciplines. This included considering projects such as a brewery complex and an agricultural leasing and maintenance joint venture. In reviewing and assessing project proposals, it became apparent that initiatives in areas such as milk processing, meat processing, and others were seen to provide more easily achievable and visible successes, while addressing vital needs of the communities. The notion of setting up an agricultural equipment leasing program was so urgently needed that stretching the limits of program coverage was considered both appropriate and useful.

Program Approach

To entice US investment to this challenging environment of Central Asia, ACDI/VOCA implemented a two-prong approach under FSRP. First, ACDI/VOCA conducted a comprehensive subsector analysis of the food processing industry, assessed the types of related companies and identified strong potential investment partners for US firms. Company profiles of the Central Asian firms were then created and marketed to ACDI/VOCA's network of US cooperative members and affiliated agribusinesses. To complement the first effort, ACDI/VOCA selected companies from its extensive network and brought them to Central Asia to perform and validate the subsector assessments and to explore investment opportunities. (see Attachment 1 for the first round of Central Asian company profiles)

Second, once the US companies committed to an investment project, ACDI/VOCA facilitated local partner identification, business plan creation, negotiations, and financing and provided targeted technical assistance to all parties in the investment process. Additionally, ACDI/VOCA's FSRP staff in the field was well-versed in the intricacies of investment regulations, policies and privatization. In effect, the FSRP staff and facilities essentially provided the services of a business support center.

By providing access to technical assistance and funding, ACDI/VOCA addressed several major constraints facing agribusinesses in Central Asia.

1. Shortage of Credit
Small and medium sized businesses, particularly in the food production and food processing sectors face extreme difficulties in obtaining credit. This put an effective and detrimental brake on development and makes expansion virtually impossible.

2. Shortage of Technical Skills
While the Central Asian countries possess a well-educated population, it was quickly apparent that the numbers of qualified technicians were insufficient to meet the demands of the transition to a market economy. Moreover, many of the technicians were unfamiliar with the more modern production and processing techniques used in the West.

3. Shortage of Management Skills
While new and competent managers emerged throughout the project, most Central Asian agribusiness managers are still holdovers from the defunct collective farm concept, the centralized party-oriented bureaucracy and possess a total unyielding distrust of modern, market-driven management techniques.

4. Shortage of Marketing Skills
Marketing is still a relatively unknown concept in Central Asia. Sales techniques are non-existent or archaic. Few local managers have experienced or studied Western marketing concepts. Those who have marketing skills quickly gain dominant shares of their market sectors.

The ACDI/VOCA project management staff therefore adopted a strategy that would take these issues into consideration and work within the confines of the problems contained therein.

Strategy

In the early phases of FSRP, ACDI/VOCA concentrated on large-scale investment projects that would immediately capture a significant market share. These were usually fully integrated investment projects involved with production, processing, distribution and retail. These projects required a high-degree of management, resources, time and investment and were often premature. For example, in 1994, Koch Supplies, Inc. of Kansas City, MO identified a dairy investment opportunity in Kazakstan. With only several minor processors supplying the market, Koch worked with FSRP to create a dairy modernization project that would immediately supply 60% of the market's dairy products. Financing for this venture was never realized because the project appeared too large for the overall market. Although investors such as the International Finance Corporation (IFC) and the Central Asian-American Enterprise Fund (CAAEF) believed the project had merit and high returns, they were not convinced that the market could handle a massive increase in supply at such a rapid pace. Consumers were simply not ready to pay high premiums for milk products. Thus, the project failed.

As a result of endeavors such as the one experience by Koch, FSRP changed strategy in 1995 and began concentrating on smaller, more manageable investment projects. ACDI/VOCA learned that the more successful investment projects were those that began on a modest level and focused on targeted or niche markets. Projects with clearly defined marketing plans and met a specific demand were more likely to succeed. With this more targeted approach, FSRP had a more positive impact improving Central Asia's food processing sector. The success of this approach is signified by the experience of Koch in later endeavors.

After the discontinued dairy project, Koch Supplies and FSRP began searching for other potential business opportunities that were more modest in scale. In early 1996, FSRP introduced Koch Supplies to Tsesna Corporation in Astana, Kazakhstan. During the initial meetings, the two companies decided to establish a meat processing joint venture. In the summer of 1996, Koch Supplies began negotiating the structure and financing of this arrangement with the Central Asian-American Enterprise Fund (CAAEF), Tsesna and FSRP. In the Fall of 1996, the joint venture was created as a joint-stock company called "IRIS" with Tsesna owning 41.7%, CAAEF 41.7% and Koch 16.6%. Tsesna contributed $300,000 as an equity contribution, CAAEF contributed $500,000 and Koch provided $100,000 cash and $100,000 in-kind. Additionally, CAAEF provided a $1.5 million loan. The plant began operations in mid-1997 and is currently operating at a full capacity of nearly 50 metric tons per month. The plant produces semi-finished and packaged fresh cuts of beef and pork. IRIS' market is the medium- to high-income consumer groups in and around Akmola (42,000 people). Tsesna markets the products out of its own retail stores and other outlets.

Significantly, the success of this model led Koch to adopt the same principles in expanding into a similar project in southern Kazakstan.

Implementing this more targeted strategy greatly improved the success of the FSRP project and helped increase employment, bring high quality products to market, and transferred Western business skills.

Project Accomplishments

Since 1993, FSRP has continuously evolved by adopting new procedures and strategies developed from "lessons learned" in order to increase the number of joint ventures and assist local agribusinesses attract outside investment with the overall goal of increasing efficiencies, productivity levels and profits. These efforts achieved the following results:

A. Joint Ventures

ACDI/VOCA's FSRP facilitated the creation of four fully financed and operating joint stock companies: FoodMaster, Inc., IRIS Meat Processing, the Almaty Snackfood Company and Alexander's Nuts, described below.

1. **FoodMaster, Inc.** (Almaty & Astana, Kaz)
   US partner: DTR, Inc., Edina, MN
   Kazak partner: Issyk Dairy Plant, Issyk, Kazakhstan

   A dairy food processing enterprise, FoodMaster sales exceeded $25 Million in its third full year of production. Given its success, FoodMaster expanded its capacity by opening four additional facilities in Kazakhstan.
   Market share: 75% of the packaged dairy product market by the end of the project
   Number of employees: 65 (~20% women).

   A more detailed Fact Sheet on Food Master is attached. (see Attachment 2)

2. **IRIS Meat Processing Plant** (Astana, Kaz)
   US partner: Koch Supplies, Inc. Kansas City, MO
   Kazak partner: Tsesna Corporation, Astana, Kazakhstan

   In Astana, Kazakstan's new capital city, Koch Supplies Inc. of Kansas City, MO created IRISs, a meat processing joint venture. IRIS processes meat products sold through Tsesna retail stores. The new IRIS facilities utilize technology that produce and deliver safe, high quality meat products. To ensure continued safe and productive operating standards, FSRP provided the nascent joint venture with accounting, marketing, finance, and business management training to IRIS employees. In 1998, with FSRP assistance, IRIS opened a wholly-owned retail outlet to sell its products.
   Market share: 30% high-end packaged meat market.
   Number of employees: 25 (~50% women).

A more detailed Fact Sheet on IRIS is attached. (see Attachment 3)

3. **Almaty Snackfood Company** (Almaty, Kaz)
   US partner: DTR, Inc., Edina, MN
   Kazak partner: Too Obyedinenyne Tech, Almaty, Kazakhstan

In 1998, FSRP assisted Developed Technology Resource Inc. to create the first potato chip plant in in Kazakhstan. DTR worked with Savory Snacks, LLC (a Wisconsin limited liability company) to identify and source appropriate equipment. Sales for the chip plant began in 1999. DTR is currently in negotiations with an additional investor in order to promote the chips and expand the business.
Market share: small snackfood imports (only chip plant in Kaz)
Number of employees: 20 (~20% women).

4. Alexander's Nuts, Inc. (Jalal-Abad, Kyrgyzstan)
US partner: Kyrgyz-American, Inc., Augusta, GA
Kazak partner: CBI International, Bishkek, Kyrgyzstan

Alexander's Nuts led to 120 (~80% women) new jobs in the walnut sector of Jalal-Abad, Kyrgyzstan. This joint venture gives farmers cash for their harvest, which in turn allows them to purchase inputs for parallel crops and improve next year's walnut production. Unfortunately, Alexander's Nuts went bankrupt after the completion of FSRP. The company planned to only export its product to the world market. During the joint venture's first year of operation, California and other large walnut producing regions experienced an abundant crop causing a sharp decline walnut prices worldwide. The company was unable to sell its product for over 9 months, causing it to go into default on a large loan and then bankruptcy.

In addition to the 4 Joint Ventures created by the end of the project, there were an additional 4 signed Joint Venture agreements between US and Kazak companies that detailed the terms of the potential Joint Ventures on which they were working. These signed JV agreements were:

1) A beverage processing and bottling joint venture in Bishkek, Kyrgyzstan valued at over $4 million. This agreement is with Kyrgyz-American Inc. of Augusta, GA and Dasmiya Company in Bishkek, Kyrgyzstan.
2) A joint venture contract signed between Astana Motors and The Morningwood Group, of Great Falls, Virginia, endeavors to set up 30 fast food outlets in Kazakstan.
3) An agricultural equipment leasing and maintenance joint venture in Western Kazakhstan between AppTech International of Des Moines, IA and Investment Industrial Corporation of Almaty, Kazakhstan.
4) a brewery between Realma Inc of Kazakstan and the Morningwood Group of Great Falls, Virginia.

B. Technical Assistance

- FSRP Joint Ventures hired over 400 employees, 60% of whom are women;
- Privatized 15 agricultural production cooperatives in Kazakstan;
- Implemented over 25 transfers of technology in food processing, packaging and labeling (e.g. dairy packaging lines from the US and meat processing equipment and processes);
- Provided over 30 technical assistance interventions focusing on improving management, marketing and finance and accounting systems; and
- Designed a privatization plan for Kazakstan agricultural production cooperatives and assisted the government in drafting a Western-style cooperative law.

Lessons Learned

There are a number of lessons learned as a result of implementing FSRP.

First, the gestation period to develop a joint venture in Central Asia is considerably longer than anticipated.

Second, given the uncertain business climate, tight credit, lack of appropriate technology and remoteness of the location, the funds provided by the project to support the early investigative stages of the joint venture process served a very important, even essential role, to attract investors particularly from the US.

Third, "keep it simple" definitely applies when working in Central Asia. Focus on one or two activities (i.e., a dairy processing plant) and not an entire sector (i.e., dairy farm, transportation, marketing, etc.) and the chances of success are dramatically increased. Companies must first examine the market's potential, structure operations relative to the market's size and adopt an incremental growth strategy. Adopting this approach, FSRP has had significant success in increasing employment, bringing healthy, high quality products to market and strengthening and enhancing SMEs by improving marketing, financial and entrepreneurial business skills.

Fourth, the infusion of a small amount of funds for technical assistance (e.g., Western style accounting system) can dramatically increase the appeal of the activity to U.S. investors. Significantly, $310,659 in USAID grant fund awards to the 4 successful Joint Ventures created under FSRP resulted in a total of $13,450,000 total equity investment in the ventures. Attachment 4 provides a detailed breakdown of the effect of leveraging USAID funds to attract investment.

ATTACHMENT l

MICHURIN FRUIT/VEGETABLE PROCESSING

I. EXECUTIVE SUMMARY

Michurin Collective Farm is located near Almaty, Kazakhstan, and is in the process of privatizing. Its desire to improve its fruit and vegetable processing facilities represents a long-term investment opportunity for a U.S.. agribusiness in the form of a joint venture. An investment of $2.50 would be eligible for up to a $1 FSRP matching grant. The farm would provide an improved facility and new storage, guarantee the source of raw materials, and provide a trainable work force in exchange for new equipment, technology, training, marketing, and joint management. Terms of the joint venture would have to be negotiated by the principals.

II. GENERAL INFORMATION

Michurin is a collective farm named after the famed Russian horticulturist, Michurin. It is located at the base of the Alatou mountain range, northwest of Almaty, Kazakhstan, near the city of Talgar. It is a large, diversified farm with approximately 10,000 hectares under cultivation, much of it irrigated. The entire region is intensively farmed with many orchards, vegetable fields, row crops, and irrigated alfalfa. There are several collective farms in the area. Raising livestock is a major activity .Michurin grows livestock for meat, dairy cows, poultry , grain, vegetables, fruits, and has a number of small industrial enterprises. It also has a well-developed social infrastructure that includes schools, housing, cafeterias, communications, and roads for its 2028 employees.

The area is located on approximately the same parallel as the Minnesota-Iowa border. The soil is excellent and a dependable supply of water for drinking and irrigation comes from the melting snow pack in the nearby mountains. The climate is moderate with very little wind. The region has snow cover for about 3 months, wet springs, and wet early summers. Late summers and autumns are quite dry with low humidity. .After Khruschev's visit to Iowa in the mid 1950's, corn was introduced and has since been continuously grown successfully. The area is well-known for its fruit growing capability. Almaty means "father of apple".

The collective farm was formed in 1939 and in 1950 two smaller collectives were consolidated into the present structure. In 1963, a vegetable process works was created and two years later a wine and brick works were added. In 1990, a sewing works was established and this year the farm began a plumbing fixture works operation. On the production side, the farm has working agreements with a Dutch company for potato growing and Israel for tomato growing using drip irrigation technology.

Property ownership is in the form of a collective which is the voluntary joining of peasants and their own land for the joint and effective running of agricultural and other profitable businesses on the basis of entrepreneurship and self-management. The collective is now undergoing a transformation in ownership structure in accordance with the newly passed privatization laws. Transformation is to be accomplished based on private ownership of land and creating new forms of partnerships and entrepreneurships. The process is to be completed by March 1, 1993.

Serik Aliev is the Chairman of the collective and is 48 years old. He was educated as a veterinarian, held a number of positions as a veterinarian and manager of livestock feeding operations at various collective farms. He attained his present position in 1987. Eskender Jambulov is the Deputy Director in charge of commercial activities. He is 56 years old, educated as an economist, and has held a variety of positions in agriculture.

III. PRODUCTION ACTIVITIES

The farm produces 60,000 to 100,000 bushels of cereal grains. Typical yields are 20 bushels/acre for dry land wheat, 60 bushels per acre for irrigated. 100+ bushels/acre yields are typical for irrigated corn and 30+ bushels/acre for irrigated soybeans. It also produces 1500 tons of potatoes, annually, but expects to increase that dramatically with the new Holland technology. Other crops

produced are 3000 tons of tomatoes, 8000 tons of vegetables, 150 tons of melons, 1000 tons of fruit, and 50,000 tons of forage and hay. It feeds 3000 head of cattle of which 1200 are milk cows, over 20000 head of sheep, almost 1000 head of horses and camels, and about 100,000 poultry. Milk production approaches 40,000 tons per year.

The collective has a small fruit and vegetable processing plant, but lack of packaging technology and equipment has caused spotty production. It processes tomatoes, cherries, apples, cucumbers, and other berry fruits. The processing equipment is old and inefficient and is in desperate need of modernization. However, the farm has a serious shortage of capital and too many uses for it.

IV. MARKETING ACTIVITIES

The primary marketing strategy is to increase production to meet demand. However, the inability to deal with the factors affecting production clearly hampers the implementation of that strategy. Another strategy is to add value to the commodities produced to increase profitability. Again, the lack of capital hampers the ability to further process and package. For those products the farm does process further, the farm has established a trading house and other trading points in the central markets of Almaty and Talgar. Packaging is done primarily to protect the product as it makes its way to market.

State-owned processing plants are the market for the raw commodities. In the past, quotas and prices were set and the farm produced and delivered the goods. Now the farm has the authority to plant whatever it feels will be profitable. If the state sets prices too low, the farm doesn't grow the crop, which has caused dislocations in the market.

Distribution of goods is still mainly through the established system of state-owned or state- influenced processing facilities. Fruits and vegetables in season make their way into the thriving fresh market, but only under control of the farm management. The farm has a fledgling retail system through which a small percentage of its products reach the consumers.

GOALS AND OBJECTIVES

This collective has more goals and objectives than cash to achieve them. They are as follows:

-Construction of a sausage processing line in Alrnaty
-Construction of a cheese plant on the farm
-Modernization of the fruit/vegetable processing plant and added capability to produce tomato paste and juices
-Develop capability to store and process potatoes
-Develop capability to dehydrate vegetables and fruits
-Increase production of potatoes
-Develop a retail outlet system to sell farm products
-Develop packaging technology for further processed goods
-Develop various small industries such as car repair
-Decrease or eliminate nonprofit enterprises

VI. COLLABORATION OPPORTUNITIES FOR U.S. COMPANIES

Clearly, both a need and a desire exist by this collective to collaborate with a foreign company. It has indicated an immediate interest in a joint venture that would result in improving its fruit/vegetable processing plant and developing a potato further-processing capability. It is most interested in improving its packaging, replacing most of the processing equipment, and processing potatoes into frozen french fries to be sold to the high end of the market in Almaty. It would expand its plant according to new equipment needs and add storage for raw potatoes and frozen french fried potatoes. Michurin would provide an improved facility, guarantee a supply of raw materials and a trainable work force. In exchange, it would ask the foreign partner to provide equipment, technology, training, marketing, and joint management. For every $2.50 invested by the U.S. company, the joint venture would be eligible for a FSRP matching grant of up to $ I.

This is a long-term investment opportunity for a U.S. agribusiness. Initial returns might be low, but as the Kazakhstan population grows more affluent and export markets are discovered, the chance for excellent returns are possible. Any joint venture though should be predicated on the continuing and eventual total privatization of the Michurin Collective. Other future investment opportunities exist, if initial success can be achieved.

ZYRYANOVSK GRAIN ELEVATOR

I. EXECUTIVE SUMMARY

The Zyryanovsk grain elevator is located in East Kazakhstan where sunflowers are a traditional and major crop. The Director of the elevator sees a need to increase profitability and believes further processing of the crops produced in the region will achieve his goal. He also understands that he will need Western technology and financial support. Development of the elevator's capability via a joint venture with a U.S. agribusiness is strongly favored by the Regional Administration. A beginning investment in sunflower oil extraction equipment and technology as the U.S. company's contribution in a joint venture should be low risk and could lead to other projects. Such an investment would be eligible for a FSRP grant of up to $2.5 to $1.

II. GENERAL INFORMATI0N

The grain elevator is located in Zyryanovsk, East Kazakhstan Oblast. The telephone is 4-11-07 (Zyryanovsk Automatic Tele. Station). It serves several very large state and collective farms and about 60 private farmers. It is the only elevator in the general area and provides weighing, grading, drying, storing, and marketing of grain and sunflower seeds for its customers. The elevator is on rail and connected to the former Soviet rail system. Its capacity is 40,000 tons for flat storage and 30,000 tons in the elevator. Grain drying facilities are powered by electricity from a nearby hydroelectric power plant. The facility has a rather primitive feed mill, a small chinese-built flour mill just put into operation, and a crude sunflower oil extraction line under construction. Across the tracks is a fertilizer plant. The farm provides a cafeteria for its 150 workers where bread is baked for the employees.

The organization began in the 1930's as a wheat storage station. In the 1950's, a bread-making facility and the present flat grain storage was built. In 1971 the new elevator was constructed and the bread-making facility was tom down. The elevator operated in this configuration until just last year when management decided it needed other sources of income and work began developing further-processing capability.

Presently the elevator is state-owned, but trying to privatize into a joint stock company. In October a plan was approved to allow 50% ownership by the producers, 40% ownership by the East Kazakhstan Territorial Property Committee, and 10% ownership for the employees. It is difficult to determine how these types of companies will finally privatize. The state expects the producers which are primarily state-owned or collective farms to purchase the assigned stock. Total value of the stock has been set at 580 million rubles for privatization purposes. However, the producers are in such a cash squeeze, they cannot afford to purchase badly needed production equipment and crop inputs. In this area they have almost entirely curtailed the use of fertilizers and pesticides because of the expense.

The 45 year old Director is Vladimir Bosyakov. He has spent his entire career working in this field. He received his mechanical engineering education at Tomsk Polytechnical School. He assumed his present position in 1985 and is a native of this area. The Chief Economist and Deputy Director is 46 years old and also a native of the area. She received her education in economics at Dnepropetrovsk Food Industry ~Institute graduating in 1977. She assumed her present position in 1991.

The area is approximately on the 5Oth parallel and has a growing season similar to the northern U.S. and southern Canada. The soil is excellent and is about two meters thick. Rainfall and snowfall are adequate for consistent production of the crops grown. The terrain is a series of low level mountains and fertile valleys. Altitude of the valley~.is about 500 meters and the mountains about 2000 meters. Grain is grown in the valleys and hay for feed land grass for grazing is grown on the mountain slopes. !

III. PRODUCTION ACTIVITIES

Typical grain production for the region is 5,000 tons of flax, 10,000 tons of barley and oats, 6,000 tons of sunflowers, 3,000 tons of peas, and 35,000 tons of winter and spring wheat. The area also produces 10,000 tons of potatoes (down substantially since the U.S.S.R. breakup), 30,000 tons of milk, and 8,000 tons of meat.

Given the state of production methods, the elevator is of sufficient size to handle the entire crop from the area. However, if improved farming techniques were implemented, the production would double and the elevator would have to find additional markets and uses for the product. Presently the flour milling capacity and scheduled sunflower oil extraction line barely begin to make an impact on the present total production.

IV. MARKETING ACTIVITIES

The elevator has traditionally taken in the crops which the state commanded the state farms to grow. Wheat being the primary crop for breadmaking was passed directly to the state and sales were not recorded. Other grains were marketed to various republics of the former Soviet Union on an as needed basis. The future market strategy of the elevator is to promote the growing of crops which are most marketable and profitable. This may mean I sunflower production may increase. The State and Russia are the target markets for the grain commodities. The State will take approximately 30% of the wheat harvest, but only high quality grain. With the introduction of the new Kazakhstan currency, trade with Russia is expected to grow to world prices. This may represent a great opportunity for northern Kazakhstan gram growers.

The Elevator Director, in an effort to improve profitability, is looking to supply the immediate population of 80,000 persons with further processed foods, namely, flour, sunflower oil, and potatoes. The majority of the population is engaged in mining and metal extraction. When the economy becomes more organized this community could become much more affluent than it presently is. Additional markets exist in nearby Ust-Komenagorsk. the capital of the region with a population of 300,000. There is a sunflower oil extraction plant in that city, however.

V. GOALS AND OBJECTIVE

The Zyryanovsk Elevator has the following goals and objectives:

- Complete the cooperativization or corporatization process
- Add flour milling capacity to fill the needs of the local population
- Complete the construction of an efficient sunflower oil extraction line with packaging and become large enough to process the entire sunflower crop for the area
- Add a potato processing and packaging line and influence growers to increase their production to historical levels
- Improve cash flow by shortening the time between product sold and cash received

VI. COLLABORATION OPPORTUNITIES FOR U.S. COMPANIES

A shortage of vegetable oil in the country exists. Top level officials associated with agriculture have placed priority on improving this industry .A sunflower oil extraction plant is located in Ust-Komenagorsk, but packaging is a major problem. Formerly, the oil was shipped to Russia, packaged and sold in the state stores in all the Republics. Today, East Kazakhstan leads the former Soviet Union in sunflower seed production.

The Regional Administration and the Elevator Director favor a joint venture with a U.S. food processor to assist them with the economic growth of the elevator, agriculture, and the community of Zyryanovsk. This represents a low risk, small investment that could be expanded into other products. The crude sunflower oil extraction facility under construction has little chance of capturing the desired results. However, a small-scale line with modem technology should be profitable. A joint venture is suggested where the elevator supplies the building, utilities, management, manpower, and guaranteed source of sunflower seed and the U.S. investor supply the equipment, technology, training, packaging, and distribution. Each $2.50 investment by the U.S. company would be eligible for up to a $1 matching grant under the FSRP.

MILK ASSOCIATION

I. EXECUTIVE SUMMARY

This subproject represents a low cost opportunity to explore a potential Dew market for an interested U.S. dairy company or cooperative. The program proposes to provide out-of-pocket expenses to U.S. Kazakh teams to study each others dairy industry with the purpose of developing a modernization plan for the Kazakhstan dairy industry .The ultimate purpose is to assist the development of a viable business relationship between the two organizations. The relationship could take the form of a joint venture or a direct equity investment into the Kazakhstan dairy industry by the U.S. company. A U.S. company investment of $2.50 is eligible for up to a $1 FSRP matching grant.

II. GENERAL INFORMATI0N

The Milk Association in the Almaty Oblast, Kazakhstan, consists of nine dairy plants and 81 state and collective farms. Six plants are located in and around Almaty and the remainder in small communities in outlying areas of the Oblast. The Association is effectively a monopoly and claims to be privatizing without state participation. However, with state-owned farms with part ownership and state price controls for the time being, it is difficult to consider this as true privatization.

The area is a well-developed agricultural area with good soil, a latitude similar to the Minnesota-Iowa border, a moderate climate, and a dependable supply of drinking water and irrigation water from the melting snow-pack in the nearby mountains. The collective and state farms produce adequate supplies of feed grains and forage. Feed rations sometimes are inferior, however, due to the lack of capital for new farm machinery and storage facilities. It is also traditional to have all cows to freshen in the spring and flushed in the winter months so, of course, production drops dramatically in the winter months.

The dairy plants are all old (newest plant built in late 1970's). Some plants need to be torn down and others modernized. Packaging and shelf-life are major problems. Much of the milk consumed by the public is dispensed in the street out of milk wagons directly into the consumer's containers. There is no such thing as aseptic quality milk. She1f-life even under refrigeration is less than twelve hours. Recycled bottles, paper cartons, plastic bags, and triangular paper containers are all used. No glass or plastic bottle manufacturing exists in Kazakhstan to date.

Cows milk is the preferred dairy drink by the predominant Russian and Eastern European population in the area. Kazakhs prefer fermented mares milk or camels milk. Most dairy plants process these national dairy drinks. The approximate population of the Almaty Oblast is 2 million people.

III. PRODUCTION ACTIVITICES

Of the nine facilities, the largest is located in the northwest part of the city of Almaty. Another small one is in the city of Issyk located northeast of Almaty. The Almaty plant processes 500 tons of milk per day in two shifts. Dry powdered milk is used in the winter months to supplement the lower levels of production of the dairy herds during that season. Products produced are milk, cream, butter, yogurt, cottage cheese, sour cream, ice cream, and six Kazakh national dairy foods. The plant employs 600 persons.

The plant in Issyk is an old plant built in 1970. It processes 40,000 tons of milk annually. Ten state or collective farms supply the milk. An estimated 1500 cows are fu this area. The region claims to have the second largest milk production per cow in the Oblast. Judging

from the high quality of alfalfa and corn grown in the area that claim is probably true. Milk production fluctuates dramatically between winter and summer months. The plant makes no attempt to level its production, but does produce dry powdered milk. This plant also produces, milk, yogurt, sour cream, cottage cheese, butter, cream, and wet cheese.

Milk from both plants has a very short shelf-life, less than 12 hours. Packaging is also a very serious problem. Packaging materials of all kinds are in short supply.

IV. MARKETING ACTIVITIES

Typical of all food production, the marketing strategy is a production strategy. Produce all you can, as demand is never met. To gain additional margin, the Almaty plant has gained permission to begin distributing its products out of six plant-owned retail shops. The basic commodity milk is price controlled for now, but that appears to be changing. Prices of basic food stuffs continue to rise and probably will be decontrolled when prices reach a certain level.

Most of the products are sold through the state-owned stores or on the street. Some are sold right at the plant to the nearby population. Another significant market is state institutions. Milk is seldom sold as a drink at cafes or restaurants.

V. GOALS AND OBJECTIVES

The Deputy Head of the Regional Oblast Administration in charge of agriculture, Mr. Umarzak Uzbekov, has publicly committed to true privatization either in the form of cooperatives or private ownership. He visited the United States during the summer of 1993 and was very impressed with the state of agriculture. He links U. S. investment in Kazakhstan food processing to privatization progress. Presently, 19% of the equity of a food processing enterprise can be sold to a foreign company. He is in full agreement and will support the proposal described in the following Section VI.

The Directors of the milk plants of Almaty and Issyk are very receptive to joint ventures with U.S. food processors. Investment in the fonI1 of new technology, new equipment, and technical assistance is needed and would be welcomed. They are most interested in better packaging and packaging materials, longer shelf-life technology, dry cheese production, and juice processing.

VI. COLLABORATION OPPORTUNITIES FOR U.S. COMPANIES

A specific joint venture in one plant or one process probably doesn 't make much sense at this point. What is needed is the development and implementation of a total modernization program. The following is proposed to an interested U.S. dairy company or cooperative:

1. Build a U. S .\Kazakh team of specialists to develop a modernization plan for the six plants in and around the city of Almaty .The plan should be comprehensive as to which plants should remain, the approximate cost of modernization, the types of products to be produced, types of technology to be employed, and a list of equipment needed to complete the modernization.

2. Concurrently with the activity above, provide another team of specialists to study the distribution and market system and develop a marketing plan that coincides with the modernization plan. Much of this study has been accomplished by the EC TACIS team which could be made available to this team.

3. During or after the above activity, send a Kazakhstan team to the U .S. to study the U.S. dairy industry.

4. Leverage the relationships developed during the completion of the above activities by assisting the Milk Association management in the development of a business plan, a privatization plan, and if possible a plan for a joint venture between the U.S. company and the Milk Association.

The cost of the above proposal would be borne jointly by the U.S. company, the Milk Association, and a FSRP subgrant. Specifically, the company and Milk Association would: pay all salaries of their team members while the subgrant would pay all travel, hotel, meals, and interpreters. In-country ACDI staff would facilitate and monitor the program. ↓

SAIRAMSKI FRUIT VEGETABLE PROCESSING

I. EXECUTIVE SUMMARY

The Sairmaski processing plant is the largest and most modern in all of Central Asia. Management and the relevant government agencies are very open to U.S. investment in this plant which has some serious weaknesses. Obvious collaboration activities might involve construction of a citric acid plant and/or installation of packaging systems that meet world class standards for tomato paste and juices. Collaboration could be in a variety of forms; one could be 10% equity investment.

II. GENERAL INFORMATION

Sairamski Fruit/Vegetable Processing is located in the Republic of Kazakhstan, Chimkent Region, Sairamski District, Settlement of Belie Vodi, Telephone/Fax 8-325-31-224-55. The plant is considered the largest and finest in all of Central Asia, but has some major weaknesses. Tomatoes, cucumbers, apples, grapes, apricots, cherries, plums, and peaches are processed into tomato paste, canned cucumbers, pickled mixed vegetables, concentrated apple juice, natural apple juice, natural grape juice, stewed fruit, jams and fruit pastes.

The organization started in 1962 on the basis of a cooperative association "Food Industry". Initially, less than a million cans of canned food were produced in two shops. The plant has steadily grown to 7 main shops and 8 subsidiary shops. During most of this period t Alexander Morozov has been the Director of the plant. He is 57 years old and was educated as a mechanical engineer. He is innovative, energetic, dynamic, and inspires confidence.

The plant employs 940 people.

The currently state-owned plant is in the process of privatizing according to the new laws of the Republic. A joint stock company is to be formed with 50% ownership by producers, 20% by state, 20% by employees, and 10% for private investment which includes foreign companies.

III. PRODUCTION ACTIVITIES

Fifteen large collective or state-owned farms which produce large assortments of fruits and vegetables supply the plant. The region is well-known for its apples, peaches, and melons. Production is so abundant that much waste occurs because of the lack of processing facilities. The weather is ideal for these crops and dependable harvests are normal.

Recently, a state of the art tomato paste line was installed using Italian technology and Israeli financial assistance. This line has the capability to process 50,000 tons of tomatoes annually and the farms are gearing up to produce more tomatoes. A major packaging problem still exists, however. A fruit juice concentrate line using Swiss technology has been installed, but inadequate packaging will only allow the plant to produce concentrate stored in large aseptic storage tanks.

Capacity of the plant is 100,000 tons of raw materials, annually, packed into 50 million cans and jars of various sizes. Last year the plant processed 40,000 tons of raw materials. Due to the packaging problem, the plant can only process most goods into a semi-ready state which clearly limits the markets.

IV. MARKETING ACTIVITIES

The marketing strategy is really a production strategy. Demand for the products is typically greater than the capacity to produce. Sales are made on the basis of contracts primarily with Kazbakaleitorg (Trade of Groceries) which is a state distribution

organization. Products are sold all over Kazakhstan, but none are exported because packaging does not meet world standards. Plant management determines prices based on a fixed profit percentage.

In the future the objective is to approach production capacity and export 60 % of the output. Sairamski has agents abroad and in Moscow that are studying world market conditions and believe it can compete in the tomato paste and fruit juice markets. As the Director says "We have got our small experience in doing that.

V. GOALS AND OBJECTIVES

The General Director has two priorities. Packaging systems need to be developed and installed that meet world class standards, specifically for juices and tomato paste. He also wants to install a process to make citric acid. His needs are 200 tons per year, which he estimates would require about $1.5 million of new capital. Sairamski has the necessary raw materials available. The Director is also interested in producing sugar substitutes at volumes of 200 tons per year.

VI. U.S. COMPANY COLLABORATION OPPORTUNITIES

The General Director, Regional Oblast Administration, and Central Government are encouraging foreign investment in the food processing industry. This could be accomplished in several ways. One would be for the U.S. company to take a 10% equity position with the exclusive agreement to sell the plant equipment, technology, and technical assistance at world market prices. Another would be to identify a specific project and form a joint venture with either a minority, majority, or equal partnership in that venture. Either would be low cost market entry. Other collaboration arrangements could be developed by the principals. This is an excellent enterprise which will have several opportunities to form relationships with foreign investors.

OPA FOOD SHOPS

I. EXECUTIVE SUMMARY

This is an excellent, moderate-risk, opportunity for a U.S. company that can assist a Startup food processing and marketing enterprise located in the northern suburbs of Almaty, Kazakhstan. It offers fully constructed buildings, partially equipped, with full utilities as its major contribution to a joint venture with a U.S. company. It plans to set up a bakery, a confectionery, shops where meats and fruits/vegetables are processed into to semi-ready state, and a retail shop. OFA is interested in forming a joint venture with a U.S. company that can provide some new equipment, upgrade some existing equipment, provide some working capital, and train management and employees in operating this type of business.

II . GENERAL INFORMATION

The limited partnership "OPA" was registered as a corporate body on July 16, 1992. The form of ownership is private. The main activities are to be processing, procurement, storage, and marketing of agricultural products. The partners are Abishev Pedzhan, Bazarbaev Abai, Bapiev Otarbai, Akhmetkaliev Marat. Mr.Abishev had been the head of food sanitation and inspection for the Almaty Oblast prior to starting this venture.

The authorized fund of the company in 1992 was 80,000 rubles. OPA owns two one-story reinforced concrete buildings of 540 square meters and 320 square meters. The total area of the plot of land is about 3000 square meters with much of it paved with good quality concrete. The land is totally surrounded with reinforced concrete fence. The property is situated next to a main thoroughfare in the settlement of Energeticheski, a northern suburb of Almaty.

Under OPA's order, the designing estimates for the reconstruction of the existing premises into a Food Enterprise have been executed. Much of the construction has been completed. According to project plans, one of the buildings (540 square meters) will be used as a public catering establishment. A bread-baking plant with a confectionery and a number of departments for semi-finished products of meat and vegetables and a retail shop are also planned.

The second building (320 square meters) will be remodeled into a universal refrigerator with five cooling units with a capacity of 145 tons of refrigeration. Additionally, it is planned to place a fermentation and pickling department with a mechanical workshop within the territory.

III. PRODUCTION ACTIVITIES

The food complex currently is under construction. However, plans are to produce 832 kg of bakery goods per day, 122.5 kg of confectionery goods per day, 2 tons of semi-finished meat products per day, 2 tons of semi-finished vegetable products per day, and 28 tons of sour and salted (pickled) foods per year. The main suppliers of raw materials will be from the nearby private and collective farms in the Iliiski, Enbekshikazakhski and Talgarski districts. The Administration of the Iliiski District is particularly interested in providing agricultural products.

In compliance with the project plans, construction work to remodel the main building is almost complete. Specifications for connecting the building with public underground utility systems have been prepared and approved. At present, a credit line of 80 million rubles for a period of 2 years has been taken from the Republican Fund of the Entrepreneurs to support and expedite the construction project.

IV. MARKETING ACTIVITIES

The marketing strategy of OPA is to arrange for the operation of a universal food enterprise able to procure, store, process, and market agriproduce. The settlement Energeticheski is an administrative center of the Iliiski district of the Almaty Region. Its population is provided with bakery and confectionery goods mainly from the enterprises located in Almaty, Talgar,and Issyk. The

demand is met only partially (50 to 60%). Meat and vegetable semi-finished products are practically not available in the trade area. As for sour and salted (pickled) vegetables and fruit, they are very rarely for sale.

The food enterprises will not only fill an immediate local need, but the majority of the products will be delivered to the food shops, dining rooms using semi-finished products, cafes, restaurants of Energeticheski, the nearby villages, and the city of Almaty.

V. GOALS AND OBJECTIVES

OPA has much of the equipment to start business, but some of it is clearly inferior to western standards. Also, approximately 34 people will need to be hired and trained to operate the business. Likewise, the leaders are not trained to implement the management and accounting systems needed for success. The primary goals will be to upgrade the equipment and train all employees on how to operate this type of business.

VI. COLLABORATION OPPORTUNITIES FOR U.S. COMPANIES

The limited partnership, OPA, offers a fully constructed food complex, partially equipped with full utilities, a supply of fresh agriproduce, a set of customers, and a semi-skilled management/employee team as its part of a joint venture with a U.S. food company that has the financial and marketing expertise to assist it in realizing its ambitions. OPA expects the U. S. company to provide new equipment, equipment upgrades, some working capital, and training of management and employees in operating the businesses. The partners are truly entrepreneurial and the business is private, i.e., not state-owned or controlled. It expects all owners to make a good return on their investments. Terms of a joint venture are negotiable.

ATAMEKEN ICE CREAM

I. EXECUTIVE SUMMARY

Atameken proposes producing a quality ice cream for the upper end of the market in and around Almay I Kazakhstan. The city has over one million people with foreign companies arriving almost daily. The growing foreign and more affluent population is a ready market for deficit products like ice cream. The local company promoting the idea is a group of entrepreneurs that are concentrating its investments on recreation, sports, and tourism activities. The group is well-connected and reputable. It proposes to provide all resources except ice cream making and packaging equipment.

It favors a joint venture with a U.S. company that would supply the equipment as its part of the joint venture. Terms of the joint venture are negotiable. FSRP subgrant funds could be used to finance the training needed to launch a new business. Specifically, technical assistance, accounting, marketing, and management training will be required.

GENERAL INFORMATION

Atameken is a private fmancial/investment holding company established on November 10, 1991. The initial capital of 10 million rubles has grown to 81 million rubles as of November 1, 1993. The company has an objective of investing in the creation and development of new products and services in the recreation and tourism industries. Some of the corporation's activities include publishing the magazines "Dawn" and" Asia-Cinema", publishing the newspaper "Sports", investment in the Cultural and Sports Complex in Alrnaty, investment in the Chirnbulak ski resort, and investment in the joint stock company "Turgen" .It is also organizing a golf course in Almaty and a hunting reserve in East Kazakhstan.

The founders of the company are from the Kazakh Central Joint Stock Bank, Ministry of Tourism, and the Association "Kazakhstan". The temporary Chairman is the Minister of Tourism, Turisov Karatai. The President is Baiseitov Bahitbek, Chairman of the Kazakh Central Joint Stock Bank. By October, 1993, the company had investments totaling 655 million rubles including investments for construction of hotels in the city of Dzheskazgan, Almaty, and in the mountain canyon, Chimbulak.

Consistent with its main objectives, the company has purchased a building in the city of Talgar for the purpose of producing a quality ice cream. The product is in short supply and the only significant producer is the monopolistic Milk Association plant in Alrnaty. The quality of that product is inferior to western standards and is poorly packaged.

III. PRODUCTION ACTIVITIES

Production is not underway because of a lack of equipment. The building purchased is 180 square meters and has been renovated, but more work will be required to place it in a condition for ice cream production. The plant has access to the required utilities and additional land for expansion. Company personnel are interested in ice cream making equipment similar to that manufactured by HOIER, a German company. That equipment can produce 150 liters of ice cream per hour packed in small containers. The present building can accommodate only up to that level of production.

Raw material sources for ice cream are available in the general area. A milk plant is located nearby as well as several dairy farms that are eager to supply the plant with the materials to make this deficit product, ice cream. Adequate sources of inexpensive labor are also available. A sugar beet plant is located in Taldy Kurgan, about 200 miles to the northeast.

MARKETING ACTIVITIES

As ice cream is a deficit product and quality ice cream is nearly nonexistent in Almaty, demand will outstrip supply. Therefore, initially, the marketing strategy is really a production strategy. Many of the restaurants, hotels, and hard-currency grocery stores have been contacted and are eager to buy and sell a locally-produced quality ice cream. Everything produced at the plant should sell at premium prices, at least initially or until other competitors enter the market.

GOALS AND OBJECTIVES

Atameken's primary goal is to find a U.S. company willing to form a joint venture for the purpose of producing a locally made quality ice cream. It is willing to upgrade its building in accordance with the prospective partner's specifications. It will contract for raw material supplies, hire the personnel to manage and operate the plant, and obtain contracts for selling the finished products. Atameken is willing to establish an accounting system acceptable to the prospective U.S. partner and will make an on-site advisor available for the project.

COLLABORATION OPPORTUNITIES FOR U.S. COMPANIES

This is a low risk, low-cost market entry opportunity for a U.S. company that desires to enter the Kazakhstan market in a limited way. Ice cream is in short supply and the idea of producing a quality product for the high end of the market appears to be sound. A subproject proposal could be in the form of a joint venture or an agreement to sell equipment and provide assistance for installation and training on credit terms.

BIOTRON DEHYDRATED FRUITS/VEGETABLES

I. EXECUTIVE SUMMARY

Biotron represents a high risk opportunity for a U.S. company with experience in the production and marketing of dehydrated fruits and vegetables. The concept of dehydration of food products is very appropriate for this part of the world. There is a plentiful and cheap source of raw materials and labor available. A large amount of waste of produce occurs because of a lack of processing equipment and a lack of a refrigerated distribution system. A virtually untapped and unlimited market exists to the north and east. The enterrprise is led by an aggressive entrepreneur, but the business is seriously under financed. Investment with capital, technical assistance, marketing, and management training will be needed for this company to survive and prosper. An interested U.S. company could exert a high degree of control over this private company.

GENERAL INFORMATION

Biotron is located in the Republic of Kazakhstan, with offices in Almaty and Jambul. The plant is located in the main fruit and vegetable storage complex in Jambul. In Almaty the telephone number is 3272-63-17-00 and the fax number is 3272-63-13-77. In Jambul, the telephone number is 326-22-6-20-36.

Biotron is a new joint stock company formed by Russian Food, a joint stock company in St. Petersburg that grew out of a converted defense plant, and The Industrial Association, a part of the Ministry of Agriculture. It was capitalized with 50 million rubles in August, 1993. The enterprise dehydrates vegetables and fruits and sells it to the Russian Minister of Defense. It also has customers in the Russian Far East. Dehydrating equipment using infrared technology was furnished by Russian Food.

The Director General of the firm is Irina Ganitch. She is young, aggressive, typical of the new entrepreneurs, and educated as a teacher of chemistry and biology. She has 46 employees, many of which are part-time.

Given the storage life and packaging problems that exist in Kazakhstan, dehydration technology represents an excellent solution for fruits and vegetables. In addition to those advantages, the cost of distribution is low and there is a ready and eager customer base in Siberia and the Russian Far East.

PRODUCTION ACTIVITIES

During the Summer/Fall of 1993, Biotron renovated a building located in the fruit and vegetable storage complex in Jambul and installed equipment. By October 25 the plant had commenced production and produced 250 kilograms of dehydrated product. At full capacity the plant with the existing equipment can process 1 to 3.5 metric tons of raw materials depending on the type. The finished product yield is 10 to 14% of the unprocessed raw material. The equipment has been tested successfully on many products. Recently, carrots and onions have been the main vegetables processed.

Packaging, raw material preparation, and capacity are the main production problems. Biotron packages everything in 15-20 kg plastic bags for the Russian Military, but for other markets a variety of packages will be needed. Much more production capacity is needed for the enterprise to be regarded as a significant and reliable supplier. Presently all the raw materials are prepared for dehydration by hand. This is time consuming and the finished product is irregular in size.

MARKETING ACTIVITIES

The market strategy is to promote the dehydrated products as a new class of foodstuffs that are quickly restorable, have long shelf life, healthful, and obtainable anywhere at a reasonable cost. The present market is the Russian Minister of Defense but new markets in the Russian Far East, Siberia, oil field workers, and the general population who have limited access to fresh markets are targeted for the future. Foreign markets will also be explored. Presently the enterprise has limited packaging and distribution systems because of scarce financial resources.

GOALS AND OBJECTIVES

Biotron is at a crossroads. It has a viable idea, but lacks the required financial resources to execute its strategy. To survive, it seeks a joint venture partner that will furnish the capital needed to complete what has been started. Biotron needs the following: additional dehydrators, raw material preparation equipment, a variety of packaging equipment and materials, more sales personnel, a better organized distribution system, and additional working capital.

VI. COLLABORATION OPPORTUNITIES FOR U.S. COMPANIES

This is a high risk opportunity for a U.S. company due to the financial situation of the potential partner, control of the enterprise could be obtained for the asking. The concept of dehydration is sound especially for this part of the world. A good and cheap source of supply of raw materials and labor exists and an almost unlimited market to the north and east is virtually untapped. Exerting total control by the new partner may not be the best strategy. The Director-General is a real entrepreneur and for her to be the leading force in a future company would have its advantages. With training in western management practices, she has the capacity and ambition to lead a growing and profitable company here in Kazakhstan.

NURLY MILK PROCESSING

I. EXECUTIVE SUMMARY

The joint-stock company "Nurly" is a collective farm with a major dairy emphasis which is attempting to diversify into a number of enterprises it believes to be profitable. This has resulted in a lack of focus on the very worthwhile project of manufacturing condensed milk, packaging it, and marketing it at a profit. The product is not available now from local sources, and must be imported. The enterprise has a recently constructed plant according to Italian technology. Nurly represents a low cost market entry opportunity for a company that can provide packaging technology, equipment, and marketing expertise to this fledgling enterprise. U.S. agribusiness investment would be eligible for a FSRP matching grant.

GENERAL INFORMATION

The joint stock agro-industrial company, Nurly is located in Nurly village, Chilik District, Alrnaty Oblast, Republic of Kazakhstan. The telephone is 8-327-76-7-81-41 and the fax in Alrnaty is 53-75-25. The village is located about 150 kilometers northeast of Alrnaty. The enterprise is in fact a collective farm which is attempting to diversify into the food processing business, banking and insurance, and high tech industry. The enterprise is in the process of privatizing.

The area is situated between two mountain ranges. The climate is dry and windy, very hot in the summer and cold in the winter. A plentiful supply of water is available from the melting snow pack for over 4000 hectares of corn and tobacco on this farm. The soil is variable. Some soil is excellent, but other soil tends to be very salty or contain too much alkaline. In general the soil is rocky and it is a continuous process to remove stones from the tilled soil.

The main cash crops and products are tobacco, milk, meat (mutton and beef), and some fruits and vegetables. Nurly has over 600 dairy cows (Brown Swiss) which are housed in rather good facilities. The dairy cow management practices appear to be above average, but consistent high quality feed is a chronic problem in the winter time. Milk handling facilities are crude.

A part of the farm's personnel are displaced defense industry technicians, engineers, and scientists. This group is driving the diversification effort. Projects in non-traditional energy, electro-magnetic radiation, small hydro-power, and plant growing are underway. The Altyn-Den Bank is an affiliate of this enterprise which offers banking and all types of insurance services. A line manufactured in a defense conversion plant for processing condensed milk has recently been installed. It was designed according to Italian technology.

Nurly can manufacture condensed milk, sour-cream, cottage cheese, and butter, but it lacks a packaging system. It has adequate space to add a small cheese line and desires to do so.

However, lack of equipment, technology, and funds prohibits it from carrying its plans to fruition. This situation is typical of many enterprises where construction started, but the initial financing devaluated so quickly those companies were unable to complete the projects.

III. PRODUCTION ACTIVITIES

The milk produced on this farm and nearby private farms is not less than 15 tons per day in the winter and 25 tons in the summer. Milk production can be increased easily with a more consistent feed ration, but thus far a motive to

accomplish an increase does not exist. Purchasing powdered milk is another alternative to supplement an on-going enterprise. Other collective farms in the area also produce milk.

An estimated seventy tons of milk per day can be processed into condensed milk with the newly installed line. Ten tons of milk an hour can be pasteurized. The milk separating unit output is 3 tons per hour. The weak spot in the plant is a small storage capacity for condensed milk (only 4 tons) and no packaging system. Refrigerated storage is available, but limited.

IV .MARKETING ACTIVITIES

A condensed milk facility does not exist in Kazakhstan, so this is the first according to the plant personnel. The major initial market would be the mining and oil drilling cities and communities located in remote areas where dairy products are generally unavailable. Packaging in 200 gram containers for the consumer market is considered to be the most lucrative. Institutions would be another market. Sweet cream, sour cream and cottage cheese would be packaged for the retail market sold through wholesalers. The preferred packaging material is polystyrene or high pressure polyethylene and multicolored foil.

VI. GOALS AND OBJECTIVES

The enterprise has many goals, some are unrealistic and impractical. However, the major immediate goal is to produce condensed milk, package it, and market it at a profit. If this c can be accomplished, other product variations can be considered in manufacturing snicker bars. Some other goals are producing aseptic quality milk, cultivating and processing peanuts and other oil producing plants, developing a cheese line, constructing small hydro-power plants on the Big Almaty Irrigation Channel for power, and producing cellulose for packaging material.

U.S. COMPANY COLLABORATION OPPORTUNITIES

Nurly is looking to collaborate with foreign partners. Its initial overture is the following:

- Obtain a packaging line through a lease or joint venture.
- Obtain technologies and equipment for the production of snicker bars through a lease or joint venture.
- Construct a power station as part of a joint venture
- Obtain monthly supplies of powdered milk (40 tons), powdered cocoa (20 tons), and sugar (60 tons) all at world prices on open credit.

This company appears to have the basics to succeed, if it can stay focused on realistic enterprises. Its tendency is to drift toward scientific approaches which may not be practical from an economic standpoint. Yet it brings to the table a functioning condensed milk line, a source of raw materials, a skilled work force, and an essentially untapped market. It seems willing to negotiate from the seal described above. A U.S. agribusiness that can bring packaging equipment, some technical assistance and technology, and marketing expertise can participate in a rather low risk opportunity. Investments would be eligible for an FSRP matching grant at the ratio of up to $2.50 to $1.

ATTACHMENT2

ACDI/VOCA's Food Systems Project in Central Asia Assists a U.S. Company to Create a Successful Dairy Joint Venture

Under the USAID-funded Food Systems Restructuring Project (FSRP), ACDI/VOCA has assisted Developed Technology Resources Inc. of Edina, MN in the creation of a dairy processing joint venture in the Republic of Kazakstan. In 1995, DTR entered into its first Central Asian joint venture, FoodMaster Inc. Located in Issyk, FoodMaster began operations by filling a niche in the food market for high quality pasteurized dairy products such as yoghurt, milk and sour cream. Since its inception, FoodMaster has been exceeding its targeted revenue projections and has introduced several new products to the market, such as ice cream. In 1996, the company made a strategic move by introducing a brand-name and using higher quality flavorings. FSRP provided FoodMaster technical assistance revamping its packaging lines. These activities positioned FoodMaster brands vis-a-vis the higher-priced, imported, western products such as Danon Yoghurt. FoodMaster's yoghurt line, Crystal Lake, has shown a dramatic increase in sales. Also under FSRP, FoodMaster acquired an accounting software package, and a communication system for its distribution network. Some of the FSRP resources were used to purchase packaging machines and train the local plant engineers on its operation.

In its first full year in production, FoodMaster had sales of $3.3 million, with profits of $360,000. With an additional $117,000 paid to DTR in license royalty fees. With the success of FoodMaster, DTR decided to focus on dairy joint ventures throughout the former Soviet Union (FSU). It is currently establishing another dairy joint venture in Moldova with assistance from USAID's Agribusiness Partnerships program.

In March 1997, DTR and Agribusiness Partners International, L.P. (API) formed FoodMaster International LLC (FMI) for the purpose of pursuing dairy opportunities in the FSU. Under the founding agreement, DTR contributed its dairy operations in Kazakstan and API agreed to fund up to $6 million over the next two years to expand the business. API is a $100 million fund sponsored by America First Companies headquarter in Omaha, Nebraska. DTR will manage the day-today affairs of FMI and its subsidiaries under a separate management agreement. API will own 60% of FMI and DTR 40% with DTR having the ability to earn a greater economic interest by reaching defined performance targets.

In addition to Moldova, FMI is expanding its operations in Kazakstan. FMI has formed a joint venture in the new Kazakstan capital of Akmola to service the market in the northern territories. In addition, FMI has invested an additional $600,000 in the Issyk plant for an ice cream production line and refrigeration.

Finally, FMI is looking into a cooperation with the Sultan Company of Kazakstan to provide much needed milk collection to the dairy industry. In May 1997, DTR began working with ACDI/VOCA's FSRP on a feasibility study to evaluate the potential business and developmental impact from a joint venture centered on the collection of milk from better managed farmers.

ATTACHMENT 3

USAID's Food Systems Restructuring Project Facilitates Akmola Meat Processing Joint Venture

Through the Food Systems Restructuring Project (FSRP), the U.S. Agency for International Development (USAID) and ACDI/VOCA have played a pivotal role in the creation of a new joint venture in Central Asia. FSRP introduced Koch Supplies Inc. of Kansas City, MO to a Kazakstan company named Tsesna Corporation. During the initial meetings, it was decided that the two companies would pursue the establishment of a meat processing joint venture. Under a grant from FSRP to Koch Supplies, much needed assistance was provided to complete this joint venture in record time.

"Kazakstan has an extremely treacherous business environment and we could not and would not have ventured into this market without the hand-holding and support from FSRP. " -John Starr, Chief Operating Officer, Koch Supplies, Inc.

In the summer of 1996, Koch began negotiating the structure and financing of the meat processing joint venture with the Central Asian-American Enterprise Fund (CAAEF), Tsesna and FSRP. In the Fall of 1996, the joint venture was created. The joint venture established a new joint stock company, IRIS, Inc. IRIS will operate a meat processing plant in Akmola which is expected to be operational in midyear 1997. IRIS was capitalized at $3 million.

Ground breaking for IRIS occurred in October 1996. The final shipment of 15 containers arrived in Kazakstan in the April 1997 and the plant is expected to be fully operational by the end of September 1997. The Grand Opening Ceremony for IRIS is expected to be in early October 1997.

IRIS is a meat slaughter and further processing facility serving the city of Akmola. Tsesna will retail the products out of its own retail stores and other outlets. Anticipated production of the finished product will be nearly 40 metric tons per month.

It is currently estimated by Western sources that more than 40% of meat products in the former Soviet Union spoil before they reach the consumer. This percentage is significantly higher in Kazakstan where hygienic standards and availability of refrigeration are below regional norms. Therefore, the construction of new facilities, such as IRIS, that are capable of delivering safe, high quality meat products is a development priority in Kazakstan.

In order to succeed, new plants such as IRIS must train its work force and management properly in modem methods of plant operation, finance, marketing, and business management. This will ensure improved quantities of quality meat available on local markets. It is for this reason that FSRP will provide Koch Supplies a grant to train IRIS management in Western finance and accounting practices. John Starr, the Chief Operating Officer of Koch Supplies stated that **"this joint venture is a prime example of how foreign assistance funds are used to help U.S.**

companies in doing business in emerging markets and would never have occurred without the assistance provided by USAID." The project's involvement in the creation of this joint venture, has dramatically improved the economic viability of the venture and helped Koch Supplies attract additional project financing.

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ATTACHEMENT 4
FSRP Joint Venture Activity

Joint Venture Activity & Industry	U.S. Company	Subgrant Amount	In-Kind Portion	Start Date	Proposed JV Investment
Joint Ventures Signed & Operating					
IRIS Meat Processing Plant	Koch Supplies Inc. Kansas City, MO	$217,575	$41,900	5/97	$3,000,000
FoodMaster Inc. - Dairy Products	DTR, Inc. Edina, MN	35,084	10,000	7/95	6,000,000
Almaty Snack Food Processing	DTR, Inc. Edina, MN Savory Snacks LLC Madison, WI	23,000	20,000	3/98	4,000,000
Alexander's Nuts Inc.	Kyrgyz-American Inc. Augusta, GA	35,000	12,000	7/97	450,000
	SUB-TOTAL	**$310,659**	**$83,900**		**$13,450,000**
Joint Venture Agreements signed in 1998					
Ag Machinery Equipment Leasing	AppTech, Inc. Des Moines, IA	$40,188	$7,000	7/97	$2,000,000
Soft Drink Processing & Bottling Facility	Kyrgyz-American Inc. Augusta, GA	52,424	11,000	3/98	2,500,000
California Chicken Ltd.	Morningwood Group / Lakeland Ventures, Inc.				
Almaty Snack Food Processing	DTR, Inc, Edina, MN	23,000	10,000	3/98	5,000,000
	SUB-TOTAL	**$115,612**	**$28,000**		**$9,500,000**
Joint Venture Projects in Process at FSRP PACD					
Western Kazakstan Poultry	AgriEnterprise, Inc. Huntsville, AL	$88,549	$90,000	11/96	$12,000,000
Meat Processing Replication	Koch Supplies Inc. Kansas City, MO	48,817	10,000	5/97	3,000,000
Dairy Collection System	DTR, Inc. Edina, MN	24,146	5,000	7/97	2,000,000
Poultry Processing –Almaty	ASTECC, Inc. Raleigh, NC	27,573	6,000	3/98	8,000,000
Restaurant/Fast food	Lakeland Ventures Tahoe, CA	44,550	4,000	3/98	1,500,000
Cold Storage Facility	The Abacus Group Little Rock, AK	25,864	5,000	3/98	3,000,000
	SUB-TOTAL	**$259,499**	**$120,000**		**$29,500,000**
Discontinued Joint Venture Projects					
Dairy Processing	Koch Supplies Inc. Kansas City, MO	$145,682	$30,000	9/94	$15,000,000
Apple Concentrate Plant	Statco International Spokane, WA Monroe Equipment Valley Tractor	186,762 6,002	37,000	3/96	9,000,000
Juice Concentrate Processing	L&A Juice Co. Los Angeles, CA	32,680	10,000	7/97	9,000,000
	SUB-TOTAL	**$371,126**	**$77,000**		**$33,000,000**
	GRAND TOTAL	**$1,056,896**	**$308,900**		**$85,450,000**